

# Waterford-Halfmoon Union Free School District

## Financial Management

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**JUNE 2018**

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Waterford-Halfmoon Union Free School District

### Audit Objective

Determine whether the Board properly managed District finances by adopting realistic budgets.

### Key Findings

- The Board overestimated appropriations by an average of nearly \$2.8 million annually from 2014-15 through 2016-17, which resulted in appropriated fund balance not being used.
- The 2015-16 unrestricted fund balance exceeded statutory limitations.

### Key Recommendations

- Adopt budgets that include realistic estimates for expenditures.
- Develop a plan for the use of excess unrestricted fund balance in the general fund.

District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

### Background

The Waterford-Halfmoon Union Free School District (District) is located in the Towns of Waterford and Halfmoon in Saratoga County. The seven-member Board of Education (Board) is responsible for the general management of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

#### Quick Facts

# of Employees	170
Student Enrollment	890
2017-18 Budgeted Appropriations	\$21 million

### Audit Period

July 1, 2014 – July 31, 2017

# Financial Management

## How Does a Board Effectively Manage District Finances?

The Board, with assistance from the Superintendent and Business Manager, is responsible for effectively managing District finances. These officials should prepare and the Board should adopt annual budgets that contain realistic estimates of revenues, appropriations and the use of fund balance as a funding source for operations. District officials must ensure that unrestricted fund balance does not exceed the amount allowed by law. New York State Real Property Tax Law (RPTL) limits the amount of unrestricted fund balance a school district can retain to no more than 4 percent of the subsequent year's budget.

## The Board Overestimated Expenditures and Appropriated More Fund Balance Than Needed

We compared budgeted revenues and appropriations with actual operating results for 2014-15 through 2016-17. Revenues estimated were generally reasonable. From 2014-15 through 2016-17 estimated revenues were \$17,537,087, \$18,003,968, and \$18,856,421, respectively; while actual revenues totaled \$17,237,355, \$18,002,917, and \$18,807,297, respectively. However, the Board overestimated appropriations by an average of nearly \$2.8 million annually (15 percent).

**Figure 1: Overestimated Appropriations**

	2014-15	2015-16	2016-17	Totals
<b>Appropriations*</b>	\$20,929,894	\$21,019,126	\$21,385,759	<b>\$63,334,779</b>
<b>Expenditures</b>	\$17,811,109	\$18,038,594	\$19,210,191	<b>\$55,059,894</b>
<b>Overestimated Appropriations</b>	\$3,118,785	\$2,980,532	\$2,175,568	<b>\$8,274,885</b>
<b>Percentage Overestimated</b>	17.5%	16.5%	11.3%	<b>15%</b>

\*Includes prior-year encumbrances and Board-authorized budget amendments

We found that overestimated expenditures included utility costs (\$452,034, or 76.6 percent), teaching salaries (\$924,267, or 8.3 percent), employee benefits (\$1.2 million, or 9.8 percent) and certain contractual services (\$1.2 million, or 31.8 percent). The remaining overestimated expenditures were distributed throughout the budget.

Additionally, we reviewed the total appropriation estimates in the 2017-18 adopted budget for reasonableness, including prior-year encumbrances, totaling approximately \$21.3 million. Based on historical expenditures from the last three completed fiscal years (\$18.4 million average annual expenditures), we found that the total 2017-18 appropriation estimates were also overestimated.

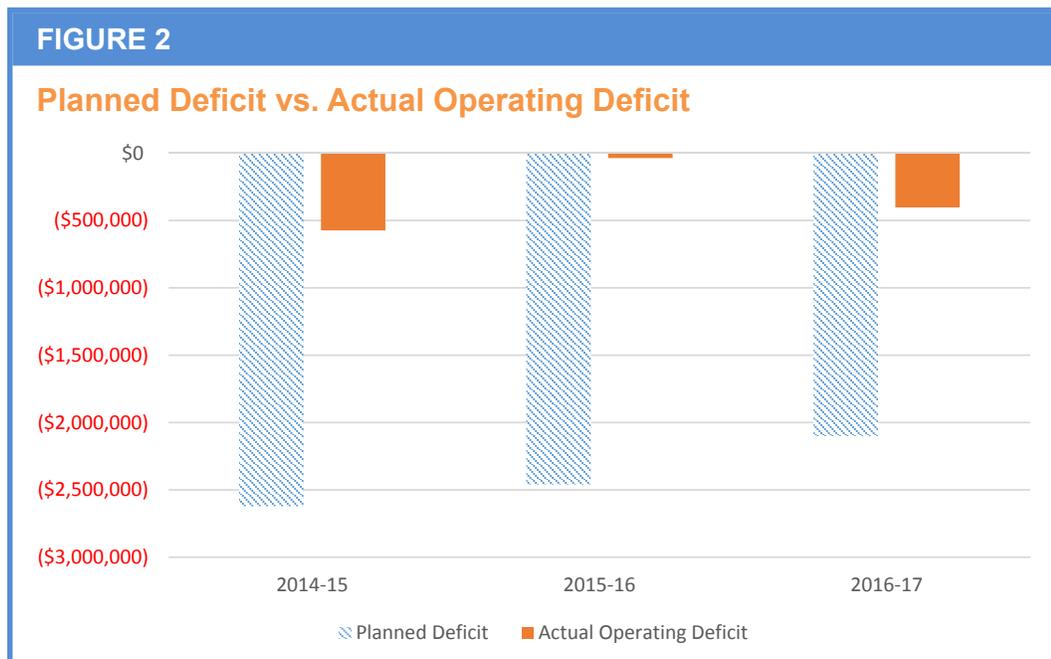
The Business Manager told us appropriation estimates are conservatively budgeted to account for unanticipated changes that may occur throughout the year. For example, when budgeting for employee health insurance, additional

amounts were included in the appropriation estimates to account for potential plan changes in employee coverage during the year. Similarly, the appropriation estimates for contractual services for special education programs contained costs for three to four additional students above the current enrollment to account for potential changes in enrollment.

While it is reasonable to budget for potential changes in costs, budget estimates should be reasonable based on historical costs. These two appropriation accounts were over budgeted by \$1.6 million (43.1 percent) over the three years we reviewed, which is a significant amount to regularly overestimate an expenditure.

Because the Board overestimated appropriations, it created what appeared to be a projected budget gap, causing the District to both increase its tax levy and use appropriated fund balance to close projected budget gaps. From 2014-15 through 2016-17, the Board increased the real property tax levy by a total of approximately \$248,000, or 2.4 percent.<sup>1</sup>

The Board also appropriated \$7.2 million (a yearly average of \$2.4 million) in fund balance in the 2014-15 through 2016-17 budgets. When fund balance is appropriated for the ensuing year’s budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. However, the District realized cumulative operating deficits totaling only approximately \$1 million over this three-year period.

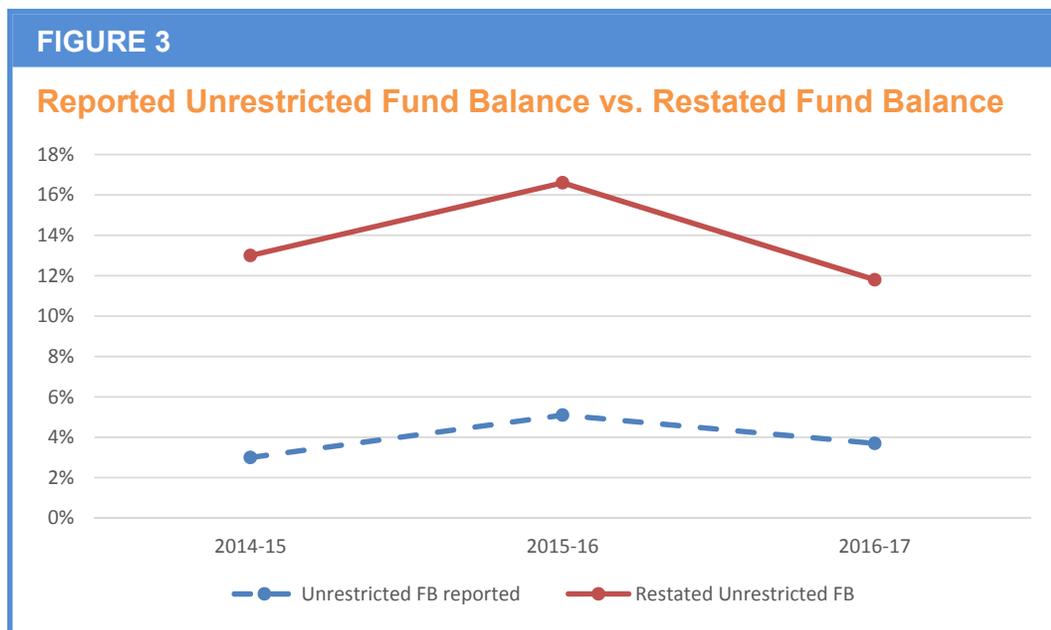


<sup>1</sup> Each of the District’s tax levy increases over the three-year period reviewed were within the allowable tax levy limits (tax cap).

By including significant amounts of appropriated fund balance in the budgets that was not needed, the Board made it appear that the District had less unrestricted fund balance than it actually had.

Over the past three fiscal years, the District reported unrestricted fund balance that ranged from 3 percent to 5.1 percent of the subsequent year appropriations. This exceeded the 4 percent limit allowed by RPTL by 1.1 percent at the end of the 2015-16 fiscal year, but was within the allowable limit at the end of the 2014-15 and 2016-17 fiscal years.

In 2014-15, the District did not use \$2.1 million of the \$2.6 million fund balance appropriated, did not use \$2.42 million of the \$2.46 million appropriated for 2015-16 and did not use \$1.7 million of the \$2.1 million appropriated for 2016-17. When unused appropriated fund balance is added back to the reported unrestricted fund balance, the District's recalculated unrestricted fund balance ranged from 11.8 to 16.6 percent of subsequent years' appropriations.



These budgeting practices resulted in operating deficits that were significantly less than planned and caused an accumulation of unrestricted fund balance that remained in excess of statutory limits.<sup>2</sup>

<sup>2</sup> 2014-15 restated unrestricted fund balance totaled \$2,658,132; 2015-16 restated unrestricted fund balance totaled \$3,484,524; and 2016-17 restated unrestricted fund balance totaled \$2,482,931.

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## What Do We Recommend?

The Board and District officials should:

1. Develop realistic estimates of appropriations and the amount of fund balance to be appropriated in the annual budget.
2. Formulate a plan for the use of excess unrestricted fund balance in the general fund in a manner that benefits District residents. Such uses include, but are not limited to:
  - Reducing property taxes.
  - Establishing necessary reserves.
  - Financing one-time expenditures.

# Appendix A: Response From District Officials

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**WATERFORD - HALFMOON  
UNION FREE SCHOOL DISTRICT  
125 Middletown Road  
Waterford, New York 12188**

Patrick H. Pomerville  
Superintendent of Schools

Phone (518) 237-0800  
Fax (518) 237-7335

May 14, 2018

Attention:

Jeffrey P. Leonard

Chief Examiner

One Broad Street Plaza

Glens Falls, New York 12801

Dear Mr. Leonard,

The Waterford-Halfmoon UFSD submits the following response and corrective action plan to the Financial Management Report of Examination by the OSC for the period July 1, 2014 through July 31, 2017.

1. **Audit Finding:** Develop realistic estimates of appropriations and the amount of fund balance to be appropriated in the annual budget.

**District Response:** We accept this response. The district has maintained a conservative approach to the budget process. The district has consistently brought the fund balance down of the last few years.

**Corrective Action Plan:** The District will continue to realign the budget to a hybrid zero based budget.

2. **Audit Finding:** Formulate a plan for the use of excess unrestricted fund balance in the general fund in a manner that benefits District residents.

**District Response:** We accept this response. The district is using the excess fund balance to add additional programs to the students, finance the Smart School Bond Act initiatives, and continue a series of small capital projects.

**Corrective Action Plan:** The district has re-evaluated the budget items and made changes to put resources in the areas of professional development, student programming and capital projects.

The district would like to thank the field examiners for their professionalism throughout the audit.

Sincerely,

Patrick Pomerville

## Appendix B: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We traced a judgmental sample of 10 significant general fund balance sheet accounts, revenue accounts and expenditure accounts from the annual update document to the audited financial statements and accounting records to determine whether figures reported were accurate and reliable.
- We traced a judgmental sample of 10 significant balance sheet accounts, revenue accounts and expenditure accounts in the accounting records to supporting documentation to determine whether the data was supported, accurate and reliable.
- We compared total revenues and expenditures to revenue, appropriation and appropriated fund balance estimates in the 2014-15, 2015-16 and 2016-17 adopted budgets to determine whether the budgets as a whole were realistic.
- We compared a judgmental sample of 10 significant general fund revenue accounts and 20 significant general fund expenditure accounts to revenue and appropriation estimates in the 2014-15, 2015-16 and 2016-17 adopted budgets to determine whether significant account estimates were realistic.
- We reviewed 2017-18 budgeted revenues, appropriations and appropriated fund balance compared to historical results to determine whether current year estimates were realistic.
- We interviewed District officials and reviewed adopted policies to determine the basis for appropriating fund balance. Additionally, we reviewed any long-term financial plans developed by District officials to determine whether they included plans for appropriating fund balance and were reasonable.
- We reviewed the District's fund balance classifications for appropriateness and calculated the year-end unrestricted fund balance as a percent of the ensuing year's appropriations to determine whether unrestricted fund balance was maintained in accordance with RPTL. Additionally, we recalculated unrestricted fund balance as a percent of ensuing year appropriations, including unspent appropriated fund balance in the unrestricted fund balance amount.
- We analyzed the District's tax levy, budget-to-actual results and use of appropriated fund balance to identify changes in the tax levy and determine whether the District levied taxes only in amounts needed to finance operations.

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We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the District Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

Office of the New York State Comptroller  
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[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

Local Government and School Accountability Help Line: (866) 321-8503

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